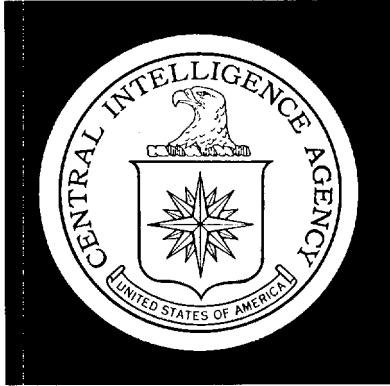


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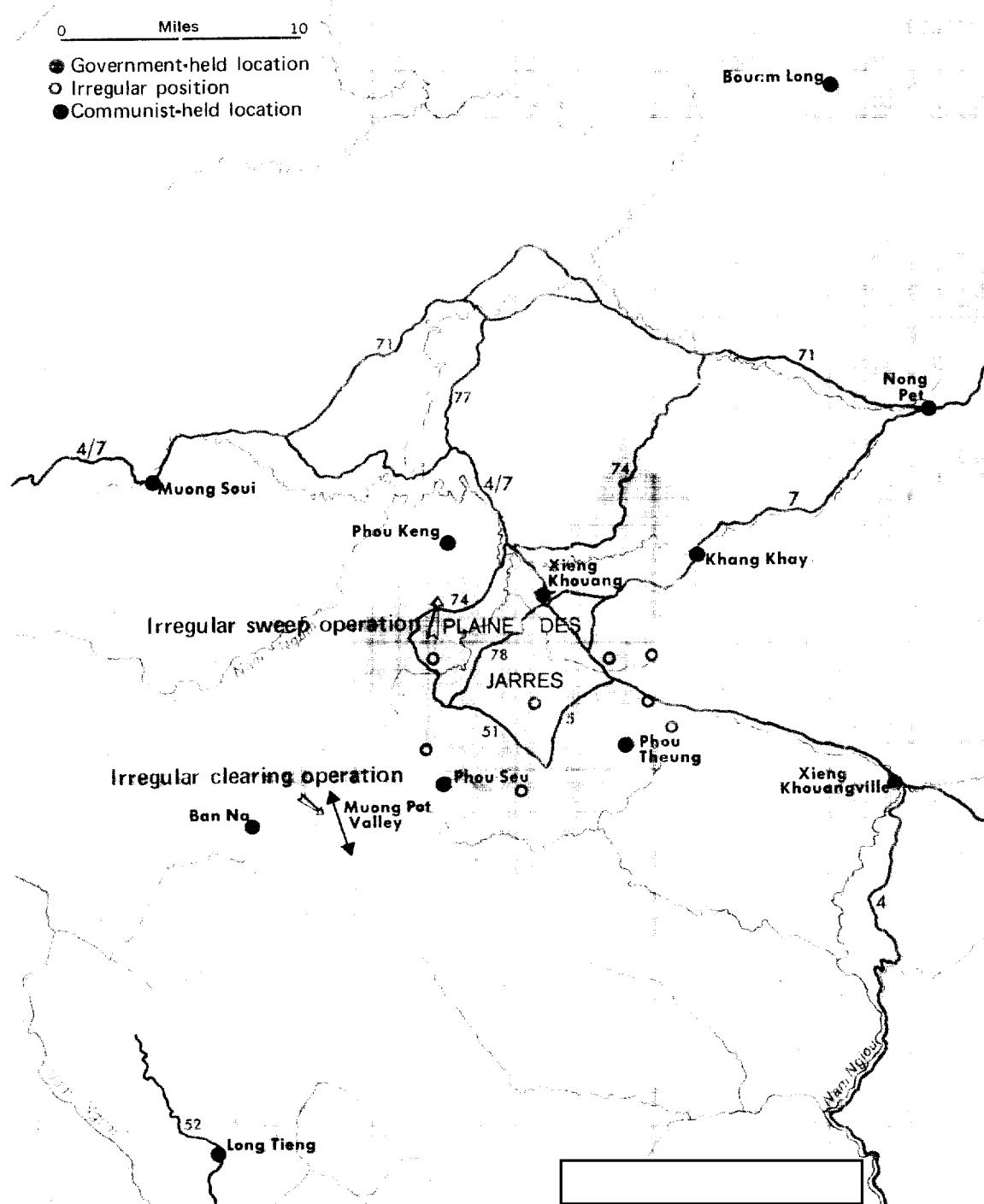
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LAOS: PLAINE DES JARRES AREA



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LAOS: Prime Minister Souvanna Phouma has adopted a flexible tone in responding to the most recent Pathet Lao proposals for a cease-fire and bombing halt.

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[redacted] Souvanna accepted the Communist proposal that negotiations be held alternately in Vientiane and on the Plaine des Jarres. He artfully sidestepped the Communist demand that a country-wide cease-fire precede negotiations. Instead the government proposed that a limited standdown be imposed in a 20-mile radius around the Plaine. The talks themselves would take up the larger questions of a country-wide cease-fire and bombing halt and then other outstanding issues.

The government proposal is ostensibly an effort to get the negotiations onto the same track as last year when the two sides came close to agreeing to a limited cease-fire on the Plaine. It is doubtful that the Communists will buy the scenario this year--particularly because much of the Plaine is presently in government hands--and the government was well aware of this when it framed its response.

On the Plaine, Vang Pao's irregulars are continuing to press forward and are now moving northward toward Phou Keng, the dominant high ground north of the Plaine. Other irregulars are conducting clearing operations in the Muong Pot Valley some four miles east of Ban Na; the valley is thought to be a major North Vietnamese supply and logistic center. Communist forces have made probes and harassing attacks on irregular outposts on the Plaine, but there is as yet no indication that a major North Vietnamese assault is imminent.

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COMMUNIST CHINA: Kang Sheng, heretofore the fifth-ranked member of the elite politburo standing committee, appears to have lost all political power.

In a recent conversation with the US ambassador in Bucharest concerning the visit of Romanian party chief Ceausescu to Peking last month, First Deputy Foreign Minister Macovescu declared flatly that "Kang no longer occupied a post." Kang, who made his only public appearance since last November at a major reception held by Mao Tse-tung for Ceausescu on 3 June, was described by Macovescu as a sick man who had come out of the hospital to greet the Romanians as a courtesy. The removal of a leader of Kang's stature from his posts for health reasons simply does not accord with past Chinese Communist practice, and his principal "illness" is almost certainly political.

During Kang's nearly seven-month absence from public view, several stories circulated in Peking that he, along with his still-missing colleague on the politburo standing committee, Chen Po-ta, had been heavily censured at the major party plenum last year for extremist activities during and since the Cultural Revolution. In recent months, there have been numerous reports that a nation-wide crackdown on extremists is intensifying, and it appears that Chen Po-ta, at least, has been purged on the grounds that he organized the notorious "May 16 Corps"--an ultraleftist group which in 1967 allegedly had attempted to undermine the positions of Premier Chou En-lai and several of the major regional military commanders now on the politburo. Although Kang was also linked with the "May 16 Corps," the recent charges against him were never specified even in the rumors, suggesting that the question of his political fate was the subject of prolonged debate.

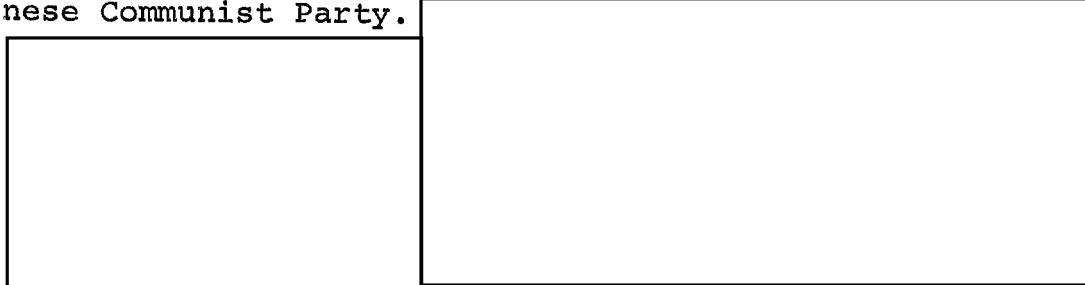
Even if the Romanian account of Kang's status is correct, it still is not clear why he appeared at the reception in June. Whatever the explanation, the complex maneuvering within China's uneasy ruling coalition continues, and Kang's brief reappearance

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probably indicates that the influence of the leftist forces with which he has been associated has not waned completely, even though he has lost his personal standing.

Kang's political demise would mean that at least four full or alternate politburo members of varying political persuasions apparently have lost status since last year. The leadership situation in Peking continues to be fluid, however--a point which was underscored last week by the extraordinary absence of a public display of China's top officials during the 50th anniversary celebration of the Chinese Communist Party.

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BURMA: Continued military domination of the government seems ensured by developments at the government party's first congress.

Current military and government leaders have been elected to all key posts in the Burma Socialist Program Party (BSPP), the country's only recognized party, which is now in the second week of its congress. The announced purpose of the congress is to transform the BSPP from a "cadre" party into a "mass" organization with elected leaders. The government leader, General Ne Win, has often promised to return power to the people, and in the future, the government will be theoretically responsible to the party.

To the surprise of no one, General Ne Win was unanimously elected chairman of the BSPP, and his heir presumptive, Brigadier San Yu, was voted general secretary. Of the 200 members of the Central Committee, which apparently will be the highest policy-making body in the government, 146 are senior military officers.

The congress, which still has to complete the task of developing the party's substructure, is likely to adjourn next week.

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IRAN: Tehran has stiffened its conditions for stopping its increasing production of opium.

In 1955 Iran, bowing to international pressures, placed a complete ban on opium production. As a result, a thriving illicit commerce soon developed with Turkey, Afghanistan, and Pakistan to fill the large domestic demand. To get some measure of control over the domestic narcotic problem, the Shah reinstated poppy cultivation in 1969, along with a strict program of addict registration and control of illegal traffic. At that time, the Shah said that Iran would suspend poppy cultivation only when Turkey and Afghanistan adopted a similar ban.

Prime Minister Hoveyda recently told US officials that it remained Iran's policy to end poppy cultivation when "all its neighbors who were sources of supply" did so.

Iran has increased its poppy crop yearly and expects to produce 130 tons of usable opium this year. This output is barely sufficient to meet the needs of the country's 65,000 registered addicts. An additional 250 tons of opium, to supply about 300,000 unregistered opium users, are expected to be smuggled in, mainly from Afghanistan.

Meanwhile, Tehran continues its highly effective control over the production and distribution of the drug. Registration of farmers, continuous observation of the harvest, and guarded transport of opium have so far kept Iranian opium from entering the illicit market.

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MALTA: Prime Minister Mintoff is moving on several diplomatic fronts at the same time.

Mintoff, who maintained a strong anti-Italian position during the election campaign, has sent a message to Rome indicating his desire to make a new start in Italian-Maltese relations and suggesting that a special emissary be dispatched for discussions.

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Mintoff's private secretary met with Libyan Prime Minister Qadhafi last week and, according to press reports, negotiations will begin soon on economic and trade relations. Libya has also agreed to release the small amount of Maltese funds blocked in Libyan banks since the overthrow of the monarchy in 1969. It is likely that Valletta will conclude an economic agreement with Tripoli, but whether it becomes more than a symbol of Mintoff's desire for a neutral Malta will depend greatly on the outcome of the renegotiation of the defense and financial agreements with the UK.

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Mintoff is incensed over British press and parliamentary statements that downgrade Malta's strategic importance and over London's delay in sending an envoy to open talks. He has threatened to terminate completely Britain's use of Maltese facilities if a minister is not sent "without delay."

The results of the talks with the UK will also affect Mintoff's attitude toward the Soviets. According to press reports, the non-resident Soviet ambassador, Mikhail Smirnovsky, was in Malta earlier this week and planned to meet with the ministers of justice and trade, industry, and tourism. Moscow is expected to ask for permission to open an embassy in Valletta and offer some sort of economic assistance.

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ITALY: The government is taking steps to stimulate economic activity.

Five decree laws aimed at reviving investment demand and production have been issued. The new, wide-ranging measures, which are effective immediately but require parliamentary approval within 60 days, have an estimated budgetary cost of \$900 million over the next 18 months. Their provisions include temporary lowering of employer social security contributions, particularly for smaller companies and for those located in southern Italy, and additional funding for subsidizing credit to industry and agriculture. The government also plans to accelerate tax rebates on exports. Although several measures will immediately improve the self-financing ability of industrial firms, the full impact on investment probably will not be felt until later this year and in 1972.

The decree laws provide a badly needed stimulus to the economy. Investment and consumer demand are sluggish and industrial output actually declined three percent in the first five months of this year compared with the same period in 1970. Major factors behind the slowdown are a squeeze on industrial profits, continued labor strife, and concern about the durability of the present coalition government. Economic growth estimates for this year were downgraded in March from an initially optimistic six-to-seven percent to about four percent, and the government is now hoping that the new measures will help keep economic growth from falling below three percent.

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RHODESIA-UK: British envoys, sent last week to probe the rebel Rhodesian government's negotiating position, have completed their talks with officials in Salisbury with no indication of a break in the impasse.

The British press has characterized these meetings as a prelude to eventual ministerial-level discussions between the two governments designed to reach a negotiated settlement. Both governments, however, have been conspicuously silent on these talks in public and private. The joint statement issued on the departure of the British negotiators simply said that "all aspects of the problems" had been discussed and that it was now "necessary for the two sides to report back to their respective governments." Because of the Tories' election campaign promise to make a last-ditch attempt to reach a settlement, further meetings between the two are likely even if the latest round of negotiations proved unproductive.

Unless one side or the other is ready to make substantial concessions, however, a settlement seems as remote as ever. The Heath government, like its predecessor, is committed to a settlement based on the principle of eventual African majority rule in Rhodesia, an anathema to the white-minority government in Salisbury. Even in the unlikely event that Heath were willing to settle for something less, he would face formidable obstacles including charges of a sell-out from African Commonwealth members and the Labor Party as well as the knotty problem of how to end UN economic sanctions. As for the Rhodesians, they probably are adhering to a stand-pat position. They have been hurt by economic sanctions, but not enough to make them bend very much.

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UGANDA: President Amin may be turning the spotlight on Uganda's quarrel with Tanzania in an effort to obscure a deteriorating domestic situation.

Amin, who has repeatedly charged Tanzania with harboring guerrilla supporters of ex-president Obote, has closed Uganda's border with Tanzania. Last week the government officially attributed sizable military losses suffered since the coup to encounters with guerrilla groups entering from Tanzania. The losses--670 officers and men of an army of over 10,000--are in fact more likely to be the result of clashes between Amin's fellow West Nilers and troops from other tribes. General Amin has also placed restrictions on two Tanzanian officials in the East African Community in retaliation for Tanzanian actions against Ugandan representatives to the Community.

Tanzania does not pose a serious threat to Uganda, but Amin, who has failed to solve such domestic problems as a worsening economic situation, a serious crime wave, and the excesses of an increasingly tribalized and unruly army, will probably continue to exploit the issue.

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ROMANIA - WARSAW PACT: Romania will not participate in the Warsaw Pact military maneuvers scheduled to begin in southeastern Bulgaria in mid-August.

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The Romanian leadership has long opposed combined military maneuvers and has not sent troop units to participate in Pact exercises for several years. Headquarters elements of a Romanian division did take part in last year's "Comrades-in-Arms" maneuvers in East Germany, but Bucharest has apparently decided against even such minimal participation this year. Conflicting information on the number, type, and nationality of units scheduled to take part in the exercise has been received from various East European sources, but apparently at least Soviet and Bulgarian forces will be involved.

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BULGARIA: Party boss Todor Zhivkov's elevation to the position of chief of state, which had been expected, will involve him more directly in foreign affairs and also places him at the head of the body that will be the dominant government institution. Under the new constitution, the State Council, technically a successor to the powerless Presidium of the National Assembly, has greater legislative and executive responsibility, as well as more scope for independent action. The Council is similar to Romania's Council of State, but is unlike Poland's State Council or Hungary's Presidential Assembly, both of which are little more than political dustbins.

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PHILIPPINES: The Supreme Court has ordered a full rollback in recent price increases for petroleum products. The move, in response to a legal action which had the support of the Philippines solicitor general, is aimed at forestalling further strikes and antigovernment demonstrations. The Supreme Court action comes as a surprise to the oil industry, which felt that President Marcos had given tacit approval for the price hike. Earlier this year oil companies, mainly US owned, tried to raise prices with only limited success. As a result of the 1970 devaluation, tariff increases, and the higher cost of crude oil, the industry expects a serious profits squeeze unless some price adjustments are made. The rollback may temporarily take some of the wind out of demands to nationalize the oil industry.

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ECUADOR: The government is again seeking financial assistance from US oil companies to ease its budget problems. The Velasco administration is asking the Texaco-Gulf consortium to guarantee a \$55-million loan it is trying to negotiate with seven US banks. In May it had requested the consortium and two other oil companies to provide a \$15-million loan--an arrangement successfully used in 1969 when budget difficulties developed. The consortium is willing, at most, to guarantee a much smaller loan than is now being requested by the government, and then only if issues concerning the government's financial provisions applicable to forthcoming petroleum exports are resolved.

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